

Product Assessment

Celeste Australian Small Companies Fund

Report data as at 31 Jan 2012
Rating issued on 28 Feb 2012

APIR Code

FAM0101AU

Asset Class

Australian Shares

Sub-Asset Class

Small Companies

Investment Style

Neutral

Investment Objective

To outperform the S&P/ASX Small Ordinaries Accumulation Index by 5% p.a. over rolling three year periods (after fees and expenses and before taxes) by investing in Australian companies outside the S&P/ASX 100 Index.

Zenith Assigned Benchmark

S&P / ASX Small Ordinaries (Accum)

Key People

Frank Villante
Chief Investment Officer

Team Size

4

Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
Fund	0.65	21.93	-10.74
Benchmark	-4.11	16.48	-13.46
Median	-0.04	21.87	-9.14

Income (% p.a.)

	Income	Total
FY to 30 Jun 2011	4.64	19.66
FY to 30 Jun 2010	8.93	31.21
FY to 30 Jun 2009	4.19	-8.51

Fees (% p.a.)

Management Fee: 0.95%
Performance Fee: 20% of benchmark outperformance subject to high water mark.

Analyst

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VIEWPOINT & RATING

The Celeste Australian Small Companies Fund (the Fund) offers investors a pure exposure to the Australian equities small cap sector, via a high conviction, style neutral portfolio. Celeste's Chief Investment Officer, Frank Villante, is the portfolio manager responsible for the Fund, and in Zenith's view is a highly experienced and capable small cap portfolio manager. In addition, Villante is supported by a team of three experienced analysts. In an under researched sector, Zenith believes the Celeste team's depth of experience and level of industry contacts, particularly Villante's, provides the team with a distinct competitive advantage. Zenith believes the firm's research, security selection and portfolio construction efforts are well structured and disciplined. Zenith also believes the firm's ownership structure provides a strong alignment of interests between the Fund's investment decision makers and investors in the Fund. **Zenith rates the Fund HIGHLY RECOMMENDED.**

Celeste Funds Management (Celeste) is a boutique Australian equities specialist. The firm is a partnership between Celeste staff (majority) and Treasury Group. The business is staffed by four investment professionals, led by Villante. The investment team is highly experienced with a combined total of over 90 years of investment experience. Celeste is supported in the way of legal services, HR, back office and distribution by the Treasury Group.

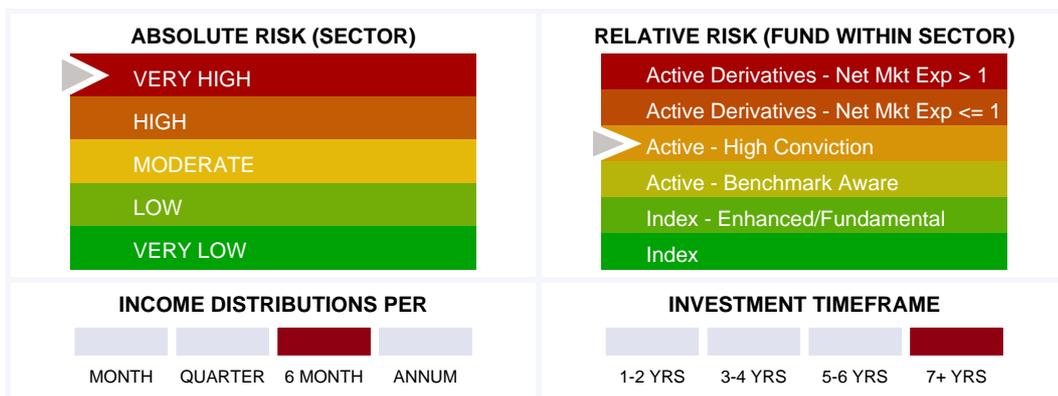
Celeste's security selection process is built on the premise that markets are inefficient and occasionally fail to reflect the intrinsic value of stocks. Celeste aims to identify companies that exhibit cash flow stability, a strong business model and a committed board and management. The research effort focuses on assessing the company's financial performance history, senior management capabilities, and the robustness of the business model. All quantitative and qualitative analysis results in a Stock Review report that tabulates the analyst's assessment of the stock's potential return, conviction level, potential portfolio exposure, growth projections, stock milestones and a social, governance and environmental summary.

Celeste's portfolio construction process is a by-product of the stock research process. The analysts level of conviction and stock return potential generates a portfolio target weight, determined by Celeste's Portfolio Return Matrix. Target weights are subjectively overlaid by Villante, based on stock liquidity and current portfolio positioning. The Fund is benchmark unaware and reasonably concentrated, typically consisting of between 30 to 40 securities, with an expected (not targeted) Tracking Error in the range of 8% p.a. to 12% p.a. Risk is managed throughout the investment process via the initial universe filtering, in-depth research analysis, and an internally designed risk management system that monitors the Fund in accordance with the risk parameters on an ongoing basis.

Fees include a base management fee of 0.95% p.a. plus a 20% performance fee based on positive outperformance of the Fund's benchmark. A high-water mark is included in the Fund's performance fee structure. Zenith considers the fee structure to be competitive in comparison to the Fund's small cap peers, although would prefer to see an alpha hurdle (i.e. target return above the index other than base management fee) in place for the performance fee.

FUND FACTS

- Style neutral, high conviction portfolio, expected to hold approximately 30 to 40 stocks
- Portfolio turnover expected to be relatively low at approximately 20% p.a. to 30% p.a.



APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

The Zenith "Australian Shares - Small Companies" sector consists of long only funds investing in the small capitalisation (small cap) spectrum of the Australian equity market. That is, companies that fall between the S&P/ASX 100 and S&P/ASX 300. This is a competitive sector of the investment landscape, with the number of managers and strategies available to investors having grown in recent years. Over the longer-term, active management in this sector has historically demonstrated a strong ability to outperform a passive index.

Zenith benchmarks all funds in this sector against the S&P/ASX Small Ordinaries Accumulation index. However, investors should be aware that funds in this sector can have a varying allocation to the micro cap universe i.e. ex S&P/ASX 300 stocks. The S&P/ASX Small Ordinaries Accumulation index is market capitalisation weighted, resulting in those companies with the largest market capitalisation's receiving the heaviest weightings.

The Australian share market, as represented by the S&P/ASX 300 Accumulation index, is relatively narrow and highly concentrated, with the Materials and Financials sectors each representing approximately one third of the index. In comparison to the S&P/ASX 300 index, the S&P/ASX Small Ordinaries Accumulation index has a much lower weighting to the Financials sector and is represented by a larger weighting to the Resources sector (weighting of approximately 45%), which reflects the importance of resources related industries to the small cap sector.

PORTFOLIO APPLICATIONS

For investors seeking to achieve a well-blended exposure to Australian equities, Zenith suggests Australian small capitalisation funds are best used in combination with a large capitalisation Australian equities fund.

Zenith believes small capitalisation funds are most appropriate for investors with an investment time horizon of seven or more years.

The Fund's style neutral investment approach makes the Fund an attractive option for investors seeking a single fund exposure to Australian small companies.

Celeste's low portfolio turnover approach, approximately 20% to 30% per annum with an average holding period of three to four years, makes the Fund ideal for investors on higher marginal tax rates.

RISKS OF THE INVESTMENT

SECTOR RISKS

The broad risks of investing in Australian small cap equities include:

MARKET RISK: A sustained downturn in the Australian equity market could lead to negative performance. Furthermore, in market downturns, the small cap sector tends to underperform the large cap sector due to its higher "beta" characteristic. The Resources sector currently represents close to half of the S&P/ASX Small Ordinaries Accumulation index. Small resources companies are highly correlated to commodity prices, as such, a fall in commodity prices is likely to have a negative impact on performance returns.

CONCENTRATION RISK: Many small capitalisation funds tend to be concentrated and high conviction, with relatively few risk management constraints. Performance may therefore diverge from that of the index, and competitors, over the short-term.

CAPACITY/LIQUIDITY RISK: Excessive levels of funds under management (FUM), particularly in the small capitalisation sector of the market, has the potential to inhibit a manager's ability to trade portfolio positions effectively, and therefore limit outperformance or alpha generation potential. As a general 'rule of thumb' Zenith believes approximately 1% of the market capitalisation of the S&P/ASX Small Ordinaries index is an appropriate capacity target for an Australian small cap strategy, and that above this level it becomes increasingly difficult to generate alpha. Zenith is cognisant that assessing FUM capacity as a percentage of market capitalisation is a relatively crude measure and that capacity constraints can vary depending on the underlying investment style and approach. Zenith will therefore assess capacity limits for each manager and strategy on an individual basis.

FUND RISKS

Zenith has identified the following key risks associated with the Fund; this is not intended to highlight all possible risks:

CAPACITY LIMIT: Celeste has indicated a target capacity limit of approximately \$850 million, based on the current market capitalisation of the S&P/ASX Small Ordinaries Index. As at 30 September 2011, FUM in the Fund was approximately \$341 million, which does not present an issue in regards to Celeste's ability to efficiently enter and exit stock positions.

KEY PERSON RISK: As with most small cap investment teams, key person risk is high. In particular, the departure of Villante, Chief Investment Officer, would trigger a review of the Fund and its rating. Overall, Zenith believes the current equity arrangement negates the risk of his departure.

QUALITATIVE DUE DILIGENCE

ORGANISATION

In November 2009, Treasury Group (Treasury) acquired Souls Funds Management (Souls) from Washington H. Soul Pattinson, the transaction included the Small Companies Fund and existing investment team. Frank Villante remained as Chief Investment Officer and retained a majority of the existing investment team based on their respective small cap experience. Treasury and the investment team entered into an equity agreement resulting in the investment team acquiring a 59% stake in Celeste, Treasury retaining 39%, with 2% retained by historic minorities. Souls Funds Management was renamed Celeste Funds Management Limited in December 2009. Treasury provides Celeste with back office support including HR, legal and distribution services. This structure enables the investment team to focus entirely on investment management functions. Zenith is comfortable with the current ownership structure and is satisfied sufficient incentives are in place to ensure staff retention and stability within the investment team.

Celeste is in a profitable position, with firm-wide FUM approximately \$382 million, including \$341 million in the Fund as at 30 September 2011. Celeste has indicated a target capacity level of \$850 million, based on the current total market capitalisation of the S&P/ASX Small Ordinaries index.

INVESTMENT PERSONNEL

Name	Title	Tenure
Frank Villante	Chief Investment Officer	8 Yr(s)
Andreas Stephens	Analyst	12 Yr(s)
Paul Biddle	Analyst	6 Yr(s)
Scott Armstrong	Analyst	4 Yr(s)

Celeste's investment team consists of four investment professionals, led by Villante, Chief Investment Officer, who has over 23 years industry experience. Villante joined Celeste (formerly known as Souls Funds Management) in 2004 after previously working at the NAB, BT, Bridges Son & Shepherd, and NRMA investments in a range of analytical and portfolio management roles. In Zenith's view, Villante is a highly experienced and capable small cap portfolio manager.

The remaining three members of the team are investment analysts Andreas Stephens, Scott Armstrong and Paul Biddle, who between them have an average of 15 years of investment experience. In the absence of Villante, portfolio management responsibilities are assumed by one of Stephens, Armstrong or Biddle, on a rotational basis. The acting portfolio manager will perform this duty for the whole period of absence, providing individual responsibility and accountability. Pleasingly, each of the analysts has prior portfolio management experience. Zenith considers the investment team to be appropriately resourced to provide sufficient coverage of the Fund's investment universe.

Celeste's remuneration structure incorporates a competitive base salary and dividend stream. The dividend stream is based on the level of equity ownership and is subject to the overall profitability of the business. In Zenith's view, the equity

structure further aligns the interests of the investment team to the performance of the Fund and the overall success of the business.

In Zenith's view, Celeste is currently well resourced, with substantial investment and small caps experience. Furthermore, Zenith is encouraged by the transparent nature of communications between Villante and his team.

INVESTMENT PROCESS

The Fund's investment objective is to deliver a return of 5% p.a. above the S&P/ASX Small Ordinaries Accumulation index over rolling three year periods, with an estimated Tracking Error within the range of 8% p.a. to 12% p.a. The style neutral portfolio is a by-product of the multifaceted valuation approaches utilised.

Celeste believes the market is inefficient, and at times stock prices do not accurately reflect the true intrinsic value of a company. This view is based on a range of factors which include: investors being swayed by emotion and sentiment; not all investors possessing the same level of knowledge and information; and investors focusing on a short-term time frame. Through a disciplined stock selection and portfolio construction process, Celeste aims to exploit these market inefficiencies in identifying alpha opportunities.

SECURITY SELECTION

Initial Filter

The Fund's investment universe includes all stocks within the S&P/ASX Small Ordinaries Index (200 stocks - which are continuously monitored and ranked) plus non-index stocks of interest which possess significant investment opportunity. Attractive micro cap securities may also be included in the portfolio, following a thorough assessment and screening by the whole team.

The initial filtering process focuses on the following factors:

- Quality of Accounts: cash flow quality, avoiding accounting engineering;
- Debt: level and ability to payback;
- Business Model: durable, robust and competitive business model;
- Board and Management: successful track record of value creation, board commitment, alignment of interest with shareholders; and
- Valuation

The initial filter process generally screens out listed property trusts, investment companies and speculative stocks. The investment universe will reduce to approximately 200 stocks, marked for further research.

Security Research

The research universe is then disseminated amongst the investment team. Analyst research responsibilities are divided by sector, with all stocks having a primary and back-up analyst. Both the primary and back-up analysts contribute to management meetings and on-site assessments, with buy and sell decisions discussed as a group.

An initial assessment of a company's business segment, operating environment and industry growth projections is conducted, with data and information gathered from a range of sources including company suppliers, customers, competitors, and other stakeholders plus the use of broker analyst data.

The Porter Model framework is applied to assess the company's business model. The factors examined include: defining a company's competitive advantage; barriers to entry; power of suppliers and buyers; and product substitution or technological deficiencies.

The financial accounts are assessed based on at least five years historical data as well as two to three years forecast. Financial statements which exhibit quality, minimise use of provisions, and have a high level of consistency, are favoured. Companies with aggressive accounting methods will be removed from the research universe. Investment analysts draw on broker models or internally constructed models. Zenith would prefer stock models to be constructed internally, however we are cognisant of the investment team size and the magnitude of investment universe monitored.

The subjective evaluation of company management and the Board is determined by one-on-one meetings and includes an assessment of: skill sets; track record; work load; alignment of interests; and record of board meeting attendance.

The research process culminates in the production of the Stock Review report, which incorporates a stock assessment, valuation and pricing breakdown, milestones required to meet the valuation target, profit and loss potential, proposed portfolio weighting (subject to stock liquidity), and growth projections. The report also incorporates a summary of the analyst's recommendation of the stock, business model factors, environmental, social and governance considerations and any other factors which are deemed important for long-term value creation.

The Stock Review report will be presented by the primary analyst to the investment team for debate and discussion. Villante maintains ultimate decision making discretion.

In addition to the Stock Review report, all stock specific research is formally documented within a company File Note, which includes all stock specific information such as management meetings, press and brokerage releases, and historical financial information. Zenith has viewed examples of the firm's File Notes and has been impressed by Celeste's comprehensive and diligent approach to company research.

Security Valuation

Celeste utilises a blend of valuation metrics, as detailed below, in the evaluation and assessment of the research universe:

- Discounted Cashflow (DCF);
- Price/Earnings (P/E);
- Enterprise Valuation (EV);
- Life of Mine (LOM) - used in relation to stocks in the materials sector
- Return on Equity (ROE);
- Comparative dividend yields;

- Debt and gearing; and
- Margins and profitability.

The range of valuation tools are subjectively applied based on the industry and stock under assessment. Zenith views the use of multiple valuation factors, or more specifically the most appropriate valuation criteria depending on the stock/industry, as a positive.

The investment universe is continually monitored, ranked and discussed within the weekly team meeting.

Celeste believes Environmental, Social and Governance (ESG) issues can represent both opportunity and risk in a valuation context and therefore includes Responsible Investment considerations throughout all stages of its investment process. Furthermore, Celeste believes the handling of ESG matters can also serve as a proxy for overall management performance and quality. The firm's ESG related analysis is also documented in the firm's Stock Review report and File Notes. Celeste has been a signatory to the UN-PRI since 2008, and is a member of the Investor Group on Climate Change and Responsible Investment Association of Australia.

In Zenith's view, Celeste's security selection process is comprehensive and well structured.

PORTFOLIO CONSTRUCTION

Celeste's portfolio construction process is a direct outcome of the stock research process. The Stock Review report outlines the stock's characteristics, including expected return, analyst's return confidence, portfolio target weight (based on the portfolio return matrix), index weight and recommended portfolio weight.

Celeste's Portfolio Return Matrix sets guidelines for establishing and managing portfolio positions based on the combination of return potential and return confidence. The matrix is designed to allocate a portion of the portfolio, based on a tiered system, to stocks which exhibit a positive return potential (based on discount to fair value) and the return confidence of the analyst (High, Strong or Modest).

- Tier 1 (40%+ potential return) - High (7% allocation), Strong (5%) and Modest (2%);
- Tier 2 (25% - 40% potential return) - High (5%), Strong (4%) and Modest (1%); and
- Tier 3 (15% - 25% potential return) - High (3%), Strong (2%) and Modest (0%).

The Portfolio Return Matrix is not rigid and the portfolio manager maintains ultimate discretion in stock selection and portfolio weight allocation, although the average initial weighting allocated would typically be the target weight assigned by the matrix. Factors which are taken into consideration by the portfolio manager at the time of purchase or sale of a stock include: liquidity; the stocks index weight; seasonal trends; and a change of management or board members.

The Fund is constructed based on bottom-up stock research, which may ultimately lead to sector tilts away from the index. The Fund is concentrated, and will generally hold between 30 to 40 securities, with a Tracking Error generally between 8%

p.a. to 12% p.a. Portfolio turnover is expected to be within the range of 20% p.a. to 30% p.a., which Zenith considers to be relatively low.

Overall, Zenith believes Celeste's portfolio construction approach is well structured and that the Fund is positioned in the team's highest conviction ideas. With Villante as lead portfolio manager, Zenith believes there is a high level of transparency and accountability for all decisions impacting the portfolio, and ultimately Fund performance. Although the Fund's portfolio turnover is relatively low, Zenith believes Celeste's sell discipline is strong and that stocks the team no longer consider attractive, whether it be for fundamental or valuation related reasons, are sold from the Fund in a timely fashion.

OPERATIONAL DUE DILIGENCE

RISK MANAGEMENT

Portfolio Constraints	Description
Security Numbers	Generally 30 to 40
Stock Limit	Maximum of 10%
Cash (%)	Typically in the range of 0% to 5%
Tracking Error (%)	Typically between 8% p.a. to 12% p.a., not targeted

Celeste's risk management process is implemented at a stock specific level and overlaid by the general portfolio constraints applied (displayed in the table above). The initial filtering process is aimed at eliminating non investment grade companies from the research universe and identifying stocks that exhibit financial stability, a strong business model with a solid Board and management.

The portfolio manager reviews the Fund in accordance with the risk parameters in place on a daily basis through an internally designed risk management system. The Fund is reviewed against the Global Industry Classification Standard (GICS) to assess sector tilts on a monthly basis. The Fund can invest in micro cap securities; however exposure to stocks with a market cap of less than \$50 million is typically less than 5% of the portfolio.

Zenith is satisfied that the Fund's risk management processes are embedded throughout the entire investment process and that liquidity of holdings is adequately monitored.

INVESTMENT FEES

The Sector average fee (in the table below) is based on the average management fee of all flagship Australian Small Companies funds surveyed by Zenith.

Celeste has set the base management fee for the Fund at 0.95% p.a. Celeste also charges a 20% performance fee (net of fees) in excess of the ASX/S&P Small Ordinaries Accumulation index. The performance fee is subject to a high watermark, and is based on positive performance and recouped loss of performance.

Zenith views the Fund's fee structure as competitive with its Australian Small Companies fund peers. In addition, Zenith would prefer to see an alpha hurdle (i.e. target return above the index other than base management fee) in place for the performance fee.

There is also a buy/sell spread of 0.40% charged on Fund entry and exit.

Fees Type	Fund	Sector Average (Wholesale Funds)
Management Fee	0.95% p.a.	1.14% p.a.
Description		
Performance Fee	20% of benchmark outperformance subject to high water mark.	
Buy Spread		Sell Spread
Buy / Sell Spread	0.40% p.a.	0.40% p.a.

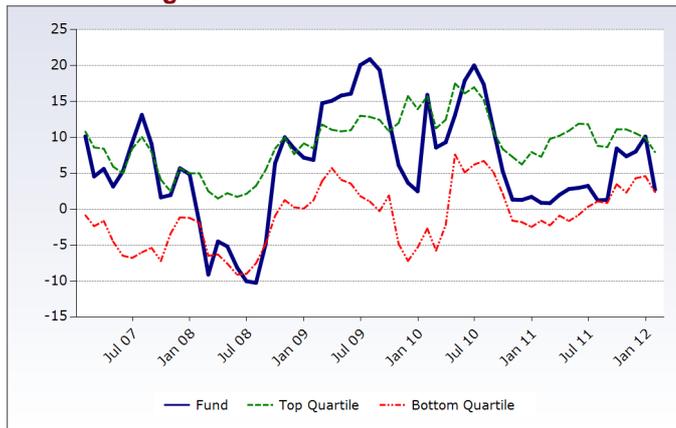
PERFORMANCE ANALYSIS

Report data as at 31 Jan 2012

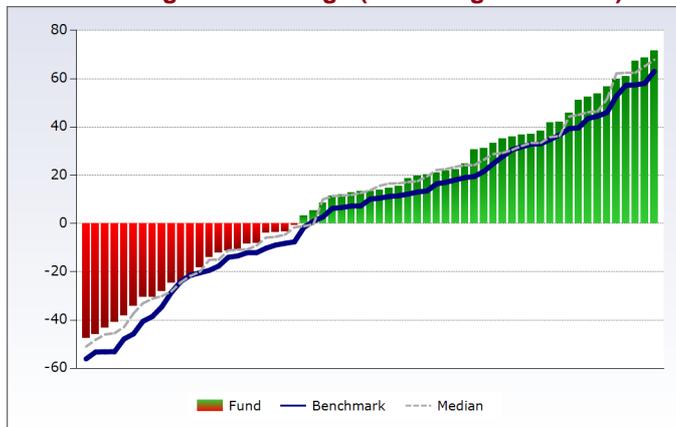
Monthly Performance History (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BENCHMARK YTD
2012	3.53												3.53	7.75
2011	2.87	2.14	0.03	-1.92	-1.56	-3.25	-1.32	-2.43	-5.76	6.60	-3.20	-3.53	-11.31	-21.43
2010	-1.90	0.42	6.01	-0.02	-7.85	-2.13	4.10	1.96	6.16	3.61	0.03	4.36	14.77	13.05
2009	-7.04	-1.25	8.70	9.81	2.57	2.13	9.55	11.69	8.00	2.75	1.29	1.30	59.92	57.43
2008	-14.91	-5.46	-3.37	1.12	-0.43	-13.43	-2.95	9.50	-4.18	-16.30	-8.23	1.91	-46.00	-53.17

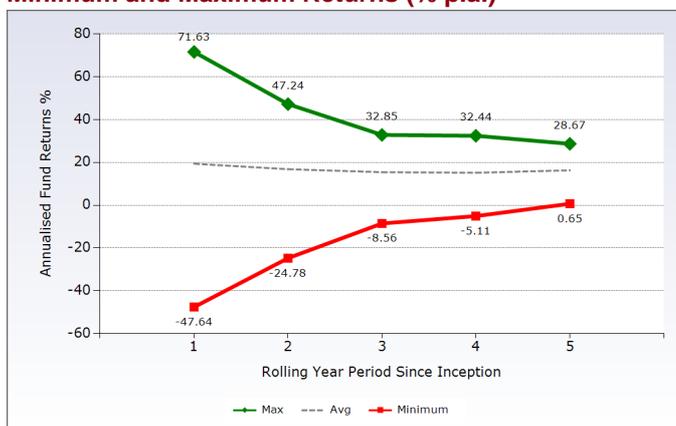
1 Yr % Rolling Excess Return



1 Yr % Rolling Return Range (Date range as above)



Minimum and Maximum Returns (% p.a.)



ABSOLUTE PERFORMANCE ANALYSIS

Return	5 yrs	3 yrs	1 yr
Fund (% p.a.)	0.65	21.93	-10.74
Benchmark (% p.a.)	-4.11	16.48	-13.46
Median (% p.a.)	-0.04	21.87	-9.14
Return Ranking within Sector	5 yrs	3 yrs	1 yr
Fund Ranking	11 / 24	15 / 30	24 / 33
Quartile	2nd	2nd	3rd
Standard Deviation	5 yrs	3 yrs	1 yr
Fund (% p.a.)	19.43	15.50	11.46
Median (% p.a.)	21.35	17.78	15.97
Downside Deviation	5 yrs	3 yrs	1 yr
Fund (% p.a.)	3.44	2.72	2.16
Median (% p.a.)	2.30	2.02	1.54
Risk/Return	5 yrs	3 yrs	1 yr
Sharpe Ratio - Fund	-0.25	1.13	-1.37
Sortino Ratio - Fund	-0.85	3.72	-4.42

The Fund's investment objective is to outperform the S&P/ASX Small Ordinaries Accumulation Index by 5% per annum (net of management fees) over a rolling three year period.

Celeste has generated an impressive long-term performance track record, with the Fund comfortably meeting its performance objective over the one, three, five and since inception (31 May 1998) periods as at 31 December 2011.

The Fund's absolute risk (as measured by Standard Deviation) remains marginally below the median manager over all time periods assessed as at 31 December 2011. The firm's focus on securities with strong business fundamentals typically helps shield the Fund from highly volatile securities.

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	5 yrs	3 yrs	1 yr
Excess Return (% p.a.)	4.76	5.46	2.71
% Monthly Excess (All Mkts)	53.33	58.33	75.00
% Monthly Excess (Up Mkts)	27.27	28.57	25.00
% Monthly Excess (Down Mkts)	85.19	100.00	100.00
Beta Statistics	5 yrs	3 yrs	1 yr
Beta	0.71	0.70	0.63
R-Squared	0.75	0.79	0.90
Tracking Error (% p.a.)	11.85	9.35	7.46
Risk/Return	5 yrs	3 yrs	1 yr
Information Ratio	0.40	0.58	0.36

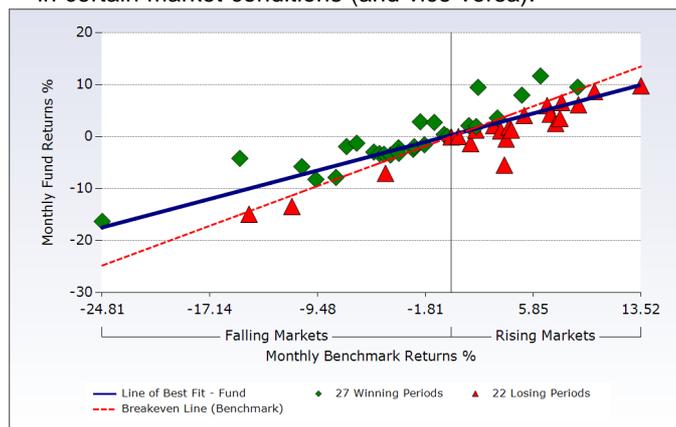
The Fund's outperformance statistics illustrate Celeste's strong ability to generate outperformance above benchmark in falling market conditions versus rising market. This is not unexpected given the firm's focus on valuation and earnings quality.

Zenith has a high level of confidence that the Celeste team will continue to deliver benchmark outperformance in the medium to long-term.

Monthly Return Scattergram

The following Monthly Return Scattergram Chart provides an insight into the skill of the manager, the risk profile of the manager (both absolute and relative) and the market conditions which favour the manager. The dot points represent the monthly returns of the fund (y-axis) and benchmark (x-axis) since inception or the past five years for funds with long histories. As a guide:

- A green dot point indicates the fund has outperformed in that month. A red dot indicates the fund has underperformed in that month.
- The blue line is a line of best fit of the fund returns and the red line is the breakeven line or benchmark line of best fit. The blue line crossing the y-axis above zero indicates investment outperformance (and vice versa)
- The slope of these lines provides an indication of the beta (market risk) of the investment and benchmark. The greater the slope the greater the risk.
- Often the blue line will cross with the red line at some point and this indicates that investment outperformance is better in certain market conditions (and vice versa).



INCOME/GROWTH ANALYSIS

Income / Growth Returns	Income	Growth	Total
FY to 30 Jun 2011	4.64%	15.02%	19.66%
FY to 30 Jun 2010	8.93%	22.28%	31.21%
FY to 30 Jun 2009	4.19%	-12.70%	-8.51%

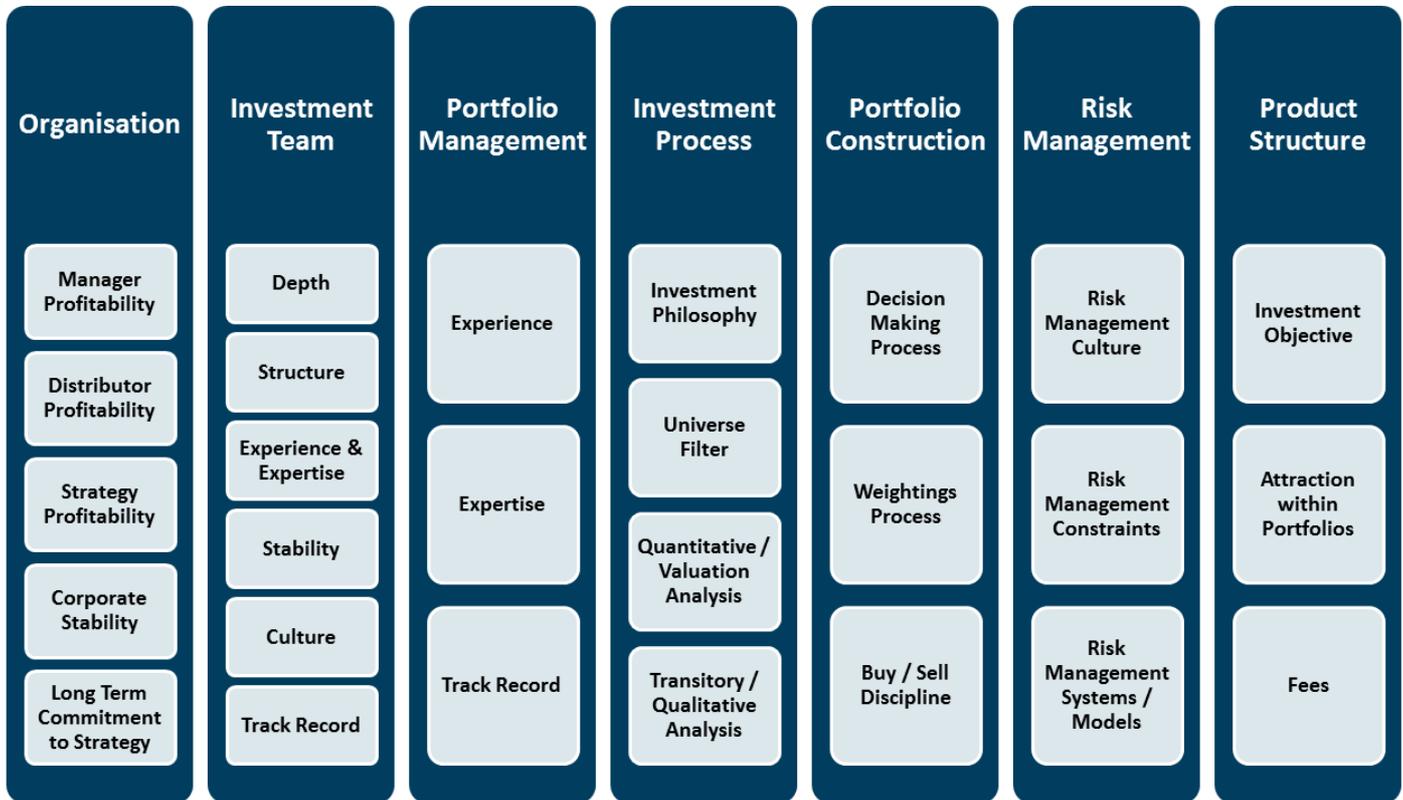
Although Celeste considers after tax returns, the Fund does not target specific income levels.

Distributions will be made semi-annually where possible.

METHODOLOGIES & DISCLAIMER

Ratings Methodology

Zenith’s ratings are based on the output of a proprietary scoring model. This model and its broad factors are shown in the following diagram. Please note we do not disclose the weightings of factors and sub-factors change for each sector. This information should be used as a guide only.



Ratings Bands

Based on the scores assigned by Zenith’s analysts for the above mentioned proprietary scoring model, a rating of Highly Recommended, Recommended, Approved or Not Approved is applied to all funds that have undergone full due diligence by the Zenith research team. As shown in the following table the ratings are determined based on the overall score out of 100. Funds may also be screened prior to conducting full due diligence based on qualitative or quantitative concerns as Zenith’s research model aims to focus on the best investments in each sector.

Rating	Scoring Output (%)	Zenith View of Standing within Peer Group (guide only)	Confidence in Meeting Objectives	Zenith Recommended List
Highly Recommended	> 80	Top Decile	Very High	YES
Recommended	> 70-80	Top Quartile	High	YES
Approved	> 55-70	Above Median	Moderate	NO
Redeem	=< 55	Below Median	Low	NO
Other Ratings				
Not Approved	In most cases these funds have failed a preliminary quantitative or qualitative screen which leads us to believe the fund will not achieve the minimum threshold required to receive a Recommended rating or above. In some cases funds may have passed the filter but managers declined the opportunity to be rated.			

Under Review The fund rating has temporarily been placed under review due to qualitative and/or quantitative issues that need to be addressed by the Zenith Research Team.

ABSOLUTE RISK RATING

The Absolute risk rankings should be viewed as a guide to potential capital volatility (in both gains and losses) of the relevant investment strategy (Zenith Asset Class / Sub Asset Class classification) of this product. A number of factors have been considered in setting this risk level. For liquid asset classes, we have typically used the underlying historical return volatility of the product's benchmark if the benchmark is a reasonable proxy for returns for this strategy. Where the risk of an investment cannot be reasonably estimated by historical benchmark return analysis, we have made a qualitative assessment of absolute risk and considered factors such as illiquidity risk, transparency, strategy risk, operational risk etc.

VERY HIGH	Funds classified as Very High risk are exposed to sectors with very high historical absolute volatility (16+% p.a. plus standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Very High absolute risk level.
HIGH	Funds classified as High risk are exposed to sectors with high historical absolute volatility (8-16% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a High absolute risk level.
MODERATE	Funds classified as Moderate risk are exposed to sectors with moderate historical absolute volatility (4-8% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Moderate absolute risk level.
LOW	Funds classified as Low risk are exposed to sectors with low historical absolute volatility (2-4% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Low absolute risk level.
VERY LOW	Funds classified as Very Low risk are exposed to sectors with very low historical absolute volatility (<2% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Very Low absolute risk level.

RELATIVE RISK RATING

The relative risk rankings should be viewed as a guide to the relative risk of a product within its sector. The relative risk levels are listed from high to low and are intended to provide some insight into the potential divergence of the investment's return profile relative to its assigned benchmark.

RATING & REPORT DISCLAIMER

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